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Malaysia needs more reforms to reach high-income nation status – economist

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This year's National Day celebrations may be over but Malaysians must remember that the occasion was not only to commemorate the nation's liberation from colonial rule but also the start of an ongoing struggle for a better future for everyone. - STR/ AZIAH AZMEE

PUTRAJAYA: This year's National Day celebrations may be over but Malaysians must remember that the occasion was not only to commemorate the nation's liberation from colonial rule but also the start of an ongoing struggle for a better future for everyone.

Today, modern Malaysia stands at a critical juncture, striving for economic justice and a more equitable society where everyone has equal access to opportunities and resources. Under the MADANI government, which is committed to reform, Malaysia is on the path toward meeting these goals.

Bank Muamalat Malaysia Bhd chief economist Dr Mohd Afzanizam Abdul Rashid said the government's move for reform is timely and aligns with Malaysia's strong growth trajectory, especially in comparison to its peers in the post-COVID-19 landscape.

He said presently, Malaysia's economy is growing at a fast clip of 5.9 percent compared with Indonesia at 5.0 percent, Singapore at 2.9 percent, Thailand at 2.3 percent and the Philippines at 6.3 percent.

On that note, growth-wise, Malaysia has done well relatively speaking, he said, but cautioned it cannot rest on its laurels.

NEED COMPREHENSIVE REFORMS

Mohd Afzanizam also said there is a need for reforms to enable Malaysia to elevate itself from higher middle-income to high-income status.

He said Malaysia has been in the higher middle-income category for quite some time, hence there are areas that need to be looked into in order for it to become a high-income nation.

"This will mean there's a need for reforms in various aspects such as governance, regulatory, economy and institution, and the reform agenda can be holistic in nature.

"This will require a robust planning process, better coordination among ministries and government agencies and buy-ins from the private sector," he told Bernama.

Pointing to the 13th Malaysia Plan – which will chart the nation's economic development from 2026 to 2030 and is scheduled to be tabled in Parliament next year – he said: "If we can do it right, I'll not be surprised if Malaysia emerges as a high-income country by 2028, provided the economy grows at 5.0 percent per annum along with the continued appreciation of the ringgit against the US dollar."

The economist said the prospect for the Malaysian economy looks promising, with the ringgit becoming the best-performing currency among 10 regional peers – a clear testament to the country's economy.

Additionally, the foreign fund inflows in equities and bonds as well as higher investment approvals reflect foreign investors' optimism towards the Malaysian economy.

"My sense is that the present administration has been pragmatic in their approach to reform the country's economy. The higher services tax rate, low-value goods tax, higher duties for chewing tobacco and sugared beverages, subsidy rationalisation on electricity and diesel as well as e-invoicing are all part of the fiscal consolidation exercise implemented to date.

"It seems the government may want to take a breather for now in order to allow these changes to take place," he said, adding the Public Finance and Fiscal Responsibility Act 2023 which has already been passed by Parliament would formalise the targets to reduce fiscal deficits and government debts.

Such pragmatism has allowed the economy to post a respectable growth of 5.1 percent in the first half of 2024, exceeding the official 2024 forecast range of four to five percent.

Mohd Afzanizam noted that with political stability, the government should be well-positioned to implement further reformist agendas that would unlock the full potential of the Malaysian economy.

MALAYSIA'S PATH TO HIGHER VALUE PRODUCTION

The economist also said Malaysians increasingly desire a more sophisticated economy in terms of production activities, with the concept of Economic Complexity (EC) becoming a popular topic of discussion or buzzword lately.

"The EC tells how a country can harness its existing resources so that it can produce more complex products rather than focus on areas that are easy to produce and do not require high capex (capital expenditure) nor the need to employ highly skilled workers.

"When our economy becomes more complex, we would see (the establishment of) more downstream industries that encourage research and development, leading to higher productivity and better compensation for employees," he explained.

It was reported that as of 2024, Malaysia ranked 56th in the Economic Complexity Index (ECI) with an ECI score of 1.12 reflecting its position as a moderately complex economy with a diverse range of exports although there is room for further improvement when compared to more advanced economies like Japan or Germany.

The ECI measures the knowledge intensity of a country's economy by considering the diversity and complexity of the products it exports.

Singapore ranked 39th with an ECI score of 1.87, Thailand 58th with an ECI score of 1.11, Vietnam 85th with an ECI score of 0.18 and Indonesia 97th with an ECI score of -0.07.

REVIVE INTEREST IN STEM

Meanwhile, addressing the importance of cultivating a knowledgeable and skilled workforce to drive the nation's future growth, Mohd Afzanizam said the government should review STEM (science, technology, engineering and mathematics) education and improve the teaching methods as "there are narratives that students have become less interested in maths and science at primary and secondary schools".

"I think the infrastructure is good but of course, there's always room for improvement. But more importantly, how do we drive students' interest in maths and science? Perhaps, we need to relook at the curriculum and think of better ways of teaching the students. Perhaps, it's about software and not so much the hardware when it comes to (STEM) education," he added.

Former executive director of the Malaysian Institute of Economic Research Prof Emeritus Datuk Dr Zakariah Abdul Rashid raised the issue of Malaysia's technical and vocational education and training (TVET), saying it must respond to the local labour market problems such as unemployment among graduates and the mismatch between education and job market needs.

He claimed many young people, especially university graduates, are facing unemployment in spite of the overall national unemployment rate of below four percent.

"Many graduates are also facing the issue of being employed in jobs that don't match their qualifications – they end up working as clerks, sales supervisors or e-hailing drivers... this indicates that while our education sector is producing many graduates, suitable job opportunities remain scarce," he said.

Zakariah also stressed that along with the new salary increase for the 1.7 million civil servants, productivity must also improve.

"Generally, we need to ensure that wage increases align with productivity growth, because if wages rise without a corresponding increase in productivity, the employer may not be able to sustain the wage hike and this could lead to inflation," he said.

He added the recent World Competitiveness Yearbook report showed a decline in Malaysia's competitiveness, dropping from 27th to 34th position out of 67 countries, mainly due to low productivity.

"Therefore, we need to enhance our output capacity, including investments in technology and upskilling the workforce. Our economic structure needs to be adjusted so that productivity can increase, which in turn will allow for wage hikes without causing significant inflation," he said.

He added this way, productivity growth will occur naturally without requiring excessive government intervention.